Interest caps on deposit rates

*96. SHRI RAASHID ALVI:
DR. T. SUBBARAMI REDDY:

Will the Minister of FINANCE be pleased to state:

(a) whether World Bank has suggested that Government could revise its policy of setting interest caps on deposit rates in respect of rural lending rates and floors on deposits rates because high transaction costs and collateral requirements were making banking unattractive for rural poor;

(b) whether they have also suggested that Government could relook priority sector lending since the prescribed quotas were not being fully observed by commercial banks and often circumvented through means such as subscription to NABARD etc.;

(c) whether Government have examined these observations made by World Bank; and

(d) if so, what steps are taken in this regard?

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): (a) and (b) Yes, Sir. World Bank has made certain observations in its report (December 2004) titled "Scaling up Access to Finance for India's Rural Poor".

(c) and (d) RBI has deregulated interest rates on loans given by the banks vide its circular dated 17th October, 1994. Banks are free to determine the rate of interest taking into account the cost of funds and the risk element involved. However, RBI has stipulated that interest rate on loans by Commercial Banks upto Rs. 2.00 lakhs should not exceed the Benchmark Prime Lending Rate (BPLR) and loans upto Rs. 50,000/- should be collateral free. Further, Indian Banks' Association has advised public sector commercial banks in the year 2003 to charge interest rate of not more than 9% p.a. on crop loans upto Rs. 50,000/-

Since October 1997, Reserve Bank of India has given freedom to commercial banks to fix their own interest rates on domestic term deposits of various maturities with prior approval of their respective Board of Directors/ Asset Liability Management Committee (ALCO). However, interest rate

on Savings Deposits (Savings Banks Accounts) is regulated by Reserve Bank of India.

Government and RBI constantly monitor the credit needs of different sectors of the economy and undertake corrective measures, when required, to ensure that adequate funds flow to Agriculture, Small & Medium Enterprises and such other important sectors. Keeping in view the continuous demand to include new areas such as infrastructure within the ambit of priority sector and suggestion that the focus of the needy sectors of the economy and weaker sections of the society is getting lost because of inclusion of additional sectors in priority sector lending, RBI has set up an Internal Working Group to review the existing policy on priority sector lending.

* **Cancellation of flights due to floods in Mumbai**

*97. SHRI SHANTARAM LAXMAN NAIK: Will the Minister of CIVIL AVIATION be pleased to state:

(a) the number of flights of Air India and Indian Airlines cancelled on account of recent floods in Mumbai;

(b) the quantum of losses caused to the two airlines;

(c) whether any damage was caused to domestic and international terminals in Mumbai on account of the said floods; and

(d) the details thereof?

THE MINISTER OF STATE OF THE MINISTRY OF CIVIL AVIATION (SHRI PRAFUL PATEL): (a) Air India and Indian Airlines cancelled 123 and 294 flights respectively on accounts of floods in Mumbai.

(b) Indian Airlines/Alliance Air and Air India have suffered a loss of Rs. 4.09 crores and Rs. 17.09 crores respectively.

(c) and (d) Yes, Sir. Due to flooding, many of electrical installations at International Terminal and Domestic Terminal-1A like sub-station equipments, lift pits, escalator pits, pumps and conveyor belts in Terminal-2A arrival area were partially/fully submerged in water. Replacement/Repair cost of damage is Rs. 300.00 lakhs approx. for electrical installations and Rs. 16.00 for Civil works.